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SECDEF FOR USDP/DSCA
EXIM PASS TO CLAIMS - MPAREDES
USDA PASS TO CCC - WWILLER/JDOSTER
USAID PASS TO CLAIMS - WFULLER
DOD PASS TO DSCS - PBERG

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TAGS: EFIN ECON EAID XM XA XH XB SF FR
SUBJECT: October 2009 Paris Club Meeting

¶1. (SBU) SUMMARY: During the October 2009 Paris Club "Tour d'Horizon," creditors expressed consternation over the $939 million payment made by Congo-Brazzaville to litigating creditors (a.k.a. vulture funds), which violated the GOC's commitment to seek terms from private creditors comparable to its Paris Club treatment. Due to a supposed calculation error, the discount on the deal appears to have been in the range of 25-37 percent, far short of the comparable 65 percent the GOC originally claimed. In addition, new information from the Congolese authorities indicated that $306 million of the payment covered the litigating creditors' alleged legal fees.

¶2. (SBU) On Argentina, the Secretariat had pressed the GOA to send a formal letter to the Club regarding its intentions, and emphasized again that there could be no formal debt restructuring without an appropriate International Monetary Fund (IMF) program. Argentina's Minister had reportedly instructed that he wanted to resolve the arrears by year-end. For the Democratic Republic of Congo (DRC), the IMF reported it was still awaiting a signed copy of the amended project loan contract between the DRC and China, so it was unable to request financing assurances, a necessary precursor to moving forward with a new IMF program. The agreement for a program under the Poverty Reduction and Growth Facility (PRGF) was to have started on

July 1st and there were some questions as to whether it would have to be renegotiated given the resulting delay in producing a debt sustainability analysis.

¶3. (SBU) Paris Club creditors also discussed Afghanistan, Antigua and Barbuda, Comoros, Cote d'Ivoire, Djibouti, Guinea, Jamaica, Kazakhstan, Moldova, and Mongolia. Methodological issues discussed included the implications for the Club of the reform of IMF instruments and the debt sustainability framework, adjustments to the Club's debt service reduction methodology (both carried over from September), treatment of public sector and nationalized entities, and outreach to non-members. After the plenary session, there was a meeting of the working group on loan guarantees that have not been called. End Summary.

Afghanistan

¶4. (SBU) The Fund reported that growth in the current fiscal year was expected to exceed 15 percent, on the bases of post-drought agricultural recovery and the stimulus effects of increased security expenditures. The deteriorating security and uncertain political situations continued to cause serious concern, however. The authorities and the Fund were in agreement on fiscal policy for the remainder of FY 2009-10, based on higher revenues. All completion point triggers related to the Heavily Indebted Poor Countries (HIPC)

initiative had been implemented or were at advanced stages, except for the mining law amendment and parts of pension reform. Both awaited cabinet approval; the mining law amendment needed Parliamentary approval as well. HIPC completion point could come as early as January 2010 assuming satisfactory performance on the sixth review (expected in early December) and triggers, and on the political situation.

Antigua and Barbuda

¶5. (SBU) The IMF reported that Antigua and Barbuda had been severely affected by the global economic crisis, with fiscal imbalances soaring and arrears continuing to accumulate. Fiscal revenues were expected to fall by 20 percent in 2009 and GDP by 6.5 percent; the latter was expected to fall a further 1.5 percent in 2010. The government was responding with expenditure cuts and tax increases, though a mission the previous week had concluded that significant further fiscal adjustment would be necessary. There were mounting banking problems in the wake of the Stanford financing scandal (Texas businessman accused of orchestrating a $9.2 billion investment ponzi scheme). Arrears accounted for 16.8 percent of GDP, of which 6 percent was to multilaterals, about 12 percent to the Club, 21 percent to non-Club bilaterals, and the remaining 61 percent to private creditors. There could be an IMF program with a subsequent debt restructuring, and financing assurances from the Club could be sought.

¶6. (SBU) The World Bank noted the country's high income level ($13,790 per capita in 2008), and said it had no record of ever having lent to the country, although it had made a modest grant for addressing fluorocarbons. The country was part of a Bank project on improving the debt profiles of Caribbean clients; creditors were curious about this, but the Bank's representative could provide no further details.

¶7. (SBU) The Secretariat noted a complexity in a potential restructuring, significant debt was tied up in the Stanford entities (6.5 percent of GDP, according to the Fund, vs. 12 percent to the Club). The Secretariat also noted that Antigua and Barbuda was on the OECD's Non-Cooperative Countries and Territories (NCCT) grey list and asked whether this could affect creditors' willingness to provide treatment.

¶8. (SBU) Several creditors reported arrears, including the Netherlands (2 million Euro), the UK (which also reported having

received a very recent payment), the U.S. ($25 million), and France (10 million Euro). Club members agreed to a data call.

Argentina

¶9. (SBU) Club Chairwoman d'Amarzit reported on her October meeting with Finance Secretary Lorenzino in Istanbul, noting that she had carried the traditional message that no formal rescheduling was possible without an appropriate Fund program. She had told Lorenzino that Argentina needed to demonstrate a "real commitment" before discussions could progress, and that Argentina should write formally to the Club to describe its general intentions, if not a specific proposal. She had also suggested that Argentina should resume making scheduled payments, as a sign of good faith. (Since all U.S. debt is in arrears, the U.S. would not directly benefit from this.) Lorenzino had asked whether such payments would be applied to arrears or to servicing current maturities; d'Amarzit had replied that it did not matter, since all would be wrapped up in an eventual workout. Lorenzino reported that Minister Boudou wanted to resolve the Club issues by year-end, and had also mentioned that an offer to holdout private creditors was imminent. The Club would need to "show creativity" in dealing with Argentina, d'Amarzit concluded, but only if the Argentines were being credible, which came down to "cash!" The ball, she said, was firmly in the Argentine court.

¶10. (SBU) The U.S. delegation reported on Treasury DAS Lee's meeting with Minister Boudou in Istanbul, noting the Argentine desire to resolve the debt issue; their interest in improving relations with the Fund, though short of a program; and their reluctance to pay in a lump sum from reserves.

¶11. (SBU) D'Amarzit responded that despite the law that had been enacted to enable payment in full from reserves, the central bank governor "had issues" with that mode of payment. In her meeting, the Argentines had noted that Spain's unilateral restructuring had been for a five-year period; she had replied that since that period had ended in 2008, the Argentines should pay the Club immediately. She also emphasized that there could be no reverse comparability of treatment with the holdouts, meaning that the deal with holdouts would not be a template for any restructuring with official creditors.

¶12. (SBU) The Netherlands suggested that the arrangement facilitated by the Club in 2007 to clear Angola's arrears might guide relations with Argentina, and suggested that it be mentioned to the Argentines in bilateral contacts. D'Amarzit replied that she had mentioned Angola to Lorenzino, but noted some significant differences, particularly the ratio of arrears to late interest and that the U.S. (which had very little flexibility to address past due interest) had not had arrears with Angola by the time that arrangement was concluded.

¶13. (SBU) The Fund noted that it had hoped to agree on a way forward for the Article IV consultation in Istanbul, but had been unable to do so. The Bank reported a positive meeting in Istanbul, during which Argentina had expressed appreciation for the Bank's support. Net transfers from the Bank to Argentina would be positive in 2009

for the first time in many years.

Comoros

¶14. (SBU) The Fund reported that the PRGF program was approved September 21. Real GDP was expected to grow just 1 percent in 2009, though inflation was easing in the face of retreating food and fuel prices. The fiscal deficit was expected to reach 6.2 percent of GDP in 2009; the debt to exports ratio was an unsustainable 260 percent.

Total debt was $262 million at the end of 2008, 54 percent of GDP, while arrears were 5.1 percent of GDP. HIPC eligibility still needed to be confirmed, though there appeared to be no serious doubts. Assuming it was, decision point could come in the first half of 2010.

¶15. (SBU) The Secretariat noted that the Club held only a small share of Comoros' debts, so as agreed it had reached out to other creditors, without success - Kuwait had indicated that it did not want to participate in negotiations, the UAE had not replied, and Saudi Arabia was unlikely to participate. The World Bank reported that its mission chief had also reached out to the Executive Directors from non-Club creditors to ask them to participate.

¶16. (SBU) The Club agreed to extend an invitation to Comoros, which is now scheduled to negotiate Naples Terms treatment on November 19. The U.S. will only observe as it is not a creditor.

Democratic Republic of Congo (DRC)

¶17. (SBU) At the time of the October meeting, the Fund still had not received a signed copy of the revised China project loan contract, so the planned request for financing assurances was not made. The Bank reported that technical work was proceeding, especially on estimating the grant element of the package. Bank staff were also helping authorities to prioritize infrastructure projects, including those being financed by the loan package, and were pleased that the authorities seemed committed to an economic return methodology.

¶18. (SBU) The Netherlands noted the passage of time, asking whether the Fund planned to re-phase the agreed PRGF program (which was to be effective from July 1). The IMF responded no, although they admitted that the July date "could not hold much longer." The Secretariat asked about reports that the Chinese loan's interest rate had been raised to reflect the loss of guarantees; the Fund noted reports that the loan had been set at a fixed rate of 4.4 percent.

¶19. (SBU) The Netherlands also asked whether there would be a new Club agreement rather than a reactivation of the old one, and noted substantial arrears, asking whether treatment of these could be deferred to completion point, to provide incentives for performance,

regretting that this had not been done in the recent Burundi and Cote d'Ivoire cases. Germany strongly supported this, and the Secretariat agreed that the Club could consider doing so, though it noted that given low capacity to pay, the action would be symbolic.

¶20. (SBU) Russia reported that it had a $1.4 million short-term debt that had not been paid, and that it would "keep this in mind" in considering financing assurances. The Secretariat retorted that there were arrears "left, right, and center."

¶21. (SBU) Several creditors expressed concern about the details of the Chinese loan and its impacts, emphasizing the need for detailed information from the international financial institutions (IFIs) and for enough time to consider the forthcoming debt sustainability analysis carefully before deciding on financing assurances. In September, the World Bank had reported that the country's interim HIPC treatment was to expire on October 15; the Bank representative was unable to provide an update on how the Bank planned to proceed.

Congo - Brazzaville

¶22. (SBU) The Secretariat had received a new letter from the authorities, following the earlier one in which the Congolese had admitted to "errors" in Congo's earlier submission on its settlement with private vulture funds. According to the new letter, the payment made was $939 million, of which $306 million was allegedly to cover the funds' legal expenses. Given the new data, it is clear that the settlement was not remotely comparable to the treatment provided by the Club. Originally, the Congolese had claimed that the discount was a comparable 65 percent. Based on the new numbers, they were

claiming just a 25 percent discount although the Fund's preliminary analysis suggested 37 percent. The Fund and Secretariat were unable to confirm the numbers, however, since the Congolese continued to refuse to provide the agreements or underlying data, claiming confidentiality requirements in the settlement. The GOC letter passed blame to the international community, which it accused of not supporting Congo in its efforts to deal with private litigants.

¶23. (SBU) Creditors were angry about the payment but recognized there was little they could do about a payment that had already been made. Some asked what additional support the international community could provide to debtors in future such cases, and some suggested the African Development Bank's (AfDB) African Legal Support Facility could help.

¶24. (SBU) The U.S. delegation argued that while the IFIs would not, of course, become directly involved in country-creditor negotiations, as asserted in the GOC letter, they would have been willing to provide technical assistance on calculating comparable treatment, as would the Secretariat and even creditors. The GOC had not sought such support. We also noted that Congo had apparently negotiated the

settlement without benefit of competent legal and financial advice. Clearly, if the Congolese authorities could find $306 million to pay the litigating creditors' legal expenses, they could have secured competent counsel for themselves, had they wished to - particularly given the magnitudes involved.

¶25. (SBU) Creditors concluded the authorities' failure to seek advice, and the outcome, raised doubts about their true motivations - doubts exacerbated by their refusal to share the underlying information with the Fund and Secretariat, even on a confidential basis.

¶26. (SBU) On the macro and HIPC fronts, the Fund reported significant fiscal consolidation, mostly attributed to an increase in discipline. The non-oil primary deficit had fallen from 56 percent to 37 percent this year, and the country was pressing hard to reach completion point by the end of 2009. A mission found that some triggers had been met and that progress was being made on others; the Bank reported that a final verification mission was planned for November, with a completion point target of December 22.

Cote d'Ivoire

¶27. (SBU) The Fund reported that the recent mission found the country to be reasonably resilient to the global economic crisis and that growth could be strong if the elections go well and progress continues on structural reforms. Real GDP was expected to rise 3.7 percent in 2009, after growing 2.3 percent in 2008, with the help of good rains and a strong showing by the mining sector; in 2010 it was expected to grow 4 percent. The current account had strengthened, and the fiscal deficit was on target at 1.4 percent of GDP. The Bank reported some progress on HIPC completion point triggers, including a reduction in cocoa taxes and a cocoa strategy near completion. Implementation of the poverty reduction strategy paper (PRSP)(another completion point trigger) had begun, and was expected to be reflected in the 2010 budget.

¶28. (SBU) The Secretariat reported on the agreement recently reached with London Club creditors. The net present value (NPV) reduction was 22 percent, comparable with treatment provided by the Paris Club, and the London Club was also matching the exceptional cash flow relief provided by the Paris Club through 2011. Talks with other private creditors, as reported in September, were proving more difficult. Some had contacted the Secretariat to ask why they were being subjected to comparable treatment, since their loans were in CFA francs and governed by domestic law. The Secretariat had replied that the Club regarded them as external creditors based on their residence.

Djibouti

¶29. (SBU) The Fund reported that the global economic crisis had hit Djibouti hard, though the current account deficit had fallen sharply, mostly because of foreign-financed investment. Fiscal policy had been loosened, with the deficit more than doubling in the first half of 2009. Borrowing had been mostly concessional, but the country was still at high risk of debt distress. Performance on the IMF program had been mixed, with waiver of four benchmarks necessary to pass the last review in June.

¶30. (SBU) Creditors holding commercial debt continued to report problems in concluding bilateral agreements. France reported that Djibouti had asked for separate agreements on commercial and Official Development Assistance (ODA) debts, which France had refused, while Germany indicated that the Djiboutian authorities were refusing to implement the agreed minute at all, insisting on full relief. Spain also reported difficulties on commercial loans. Belgium and Italy, which had only ODA loans, reported that they had signed bilaterals, though Italy reported that some of the debt was committed to a swap that was not being implemented.

Guinea

¶31. (SBU) The IMF again reported that the situation in Guinea was worsening, with hard-won gains under the PRGF program and HIPC initiative unraveling. As reported in September, the de facto authorities had attempted to fix the exchange rate at unrealistic levels while inflation had resumed, as had central bank financing of the government, to the extent of 0.7 percent of GDP in the first nine months of 2009. Reserves remained stable, but at only one month of imports. In response to a question, the Fund rep assured creditors that the de facto authorities were not able to access Guinea's Special Drawing Rights (SDR) allocation, and that based on a poll of its members, the IMF did not recognize or deal with any Guinean government.

¶32. (SBU) The Secretariat reminded creditors of the Club's June letter to the GOG, noting that since there had been no IMF program review the second phase of Guinea's debt treatment had been suspended, so creditors could now invoice on the original payment schedule. By the end of the year, the Club should decide whether or not to cancel the Paris Club agreement entirely. France and the U.S. had received payments. Several creditors expressed concerns about recently-reported loan deals with China, but there was no information beyond what had been reported in the press.

Jamaica

¶33. (SBU) The U.S. delegation had asked that Jamaica be added to the agenda, to seek an update on IMF program discussions. The Fund noted that discussions were ongoing, with a mission planned for October 26. GDP was expected to fall by 3.8 percent in the current fiscal year, and there had already been strong fiscal adjustment. Major debt restructuring was likely to be needed, although the Fund representative didn't foresee a request to the Club. The Bank indicated that it was discussing a $100 million development policy loan, in conjunction with the planned Fund program.

Kazakhstan

¶34. (SBU) The Secretariat reported that no response to its September 12 letter to the GOK regarding banking restructuring had been received. The IFIs noted that a term sheet had been signed between

Alliance Bank and its creditors but that the process with BTA Bank was taking longer (the Club letter had insisted that creditors be given enough time to consider work-out proposals). In the World Bank rep's view, creditors thought that government threats to revoke Alliance's license were credible; those regarding the bigger BTA were less so.

¶35. (SBU) The Secretariat expressed concern that the proposed workout treated debts on a pari passu basis, rather than honoring the widely-accepted seniority of trade finance, and suggested that the IMF should communicate this concern to the authorities, noting that failure to respect the principle could raise the cost of future financing to Kazakhstan; the IMF did not respond directly. Italy asked more broadly that the IMF mention Club support for Export Credit Agencies (ECAs), but the IMF demurred.

Moldova

¶36. (SBU) The IMF reported an economy hit hard, with GDP expected to fall by 9 percent in 2009, driven by sharp falls in exports, foreign direct investment (FDI) (now virtually zero) and remittances (down 40 percent). The budget deficit was expected to be 8-10 percent of GDP, impacted by election spending and weak revenues. The banking system was fragile, with one license having been revoked and other revocations possible. Heavy intervention in the first four months of the year had lowered reserves, and there were renewed discussions of a program. An October mission was planned; if there was agreement, a program could come to the Board in December or January; it was still unclear whether a program would involve a request to the Club for debt treatment. The Bank added that the new government was moving swiftly, but that the country faced significant financing needs in 2010 and 2011. (Note: An October 28 IMF press release reported preliminary staff-GOM agreement on a three-year Extended Credit Facility or Stand-by Arrangement.)

Mongolia

¶37. (SBU) Russia had asked that Mongolia be placed on the agenda so it could raise the issue of arrears. Russia claimed that most data had been fully reconciled in 2006; the Mongolians had initially confirmed this reconciliation but later refused to confirm some categories of debt. Russia stated that the outstanding claim was $180 million, of which 90 percent was in arrears. Much larger claims - over $10 billion - had been forgiven in 2003; the current arrears were unrelated to this 'big debt' forgiveness. Finland also reported $9 million of long-standing arrears, which it was still trying to reconcile. It had offered debt reduction, most recently in August, but the Mongolian authorities had been non-responsive.

¶38. (SBU) The IMF expressed concern, since under the Fund's lending into arrears policy the arrears could hold up the SBA's review, but it noted that if the debt was disputed, it would not be considered to be in arrears for program purposes. Russia noted that some but not all of its claims were disputed; Finland merely appealed to the Fund to press the Mongolians to reply to their most recent letter. The Secretariat said that Russia should clarify the situation so the IMF would know how to proceed. Given the uncertainty, the Club would not become involved.

¶39. (SBU) The Fund reported that implementation of April's SBA was strong, and that all conditions had been met on time. A mission was planned in October to prepare the first review. Tight fiscal controls had allowed the authorities to meet targets despite revenue weakness, and economic growth, expected to be 0.5 percent in 2009, could reach 7 percent in 2010, on the back of high copper prices, though the financial sector remained a major source of risk. Mongolia had just signed an agreement for a mining project that could generate export revenues of 50 percent of GDP; details remained scarce, however, and the financing could be non-concessional.

Methodological Issues

¶40. (SBU) Reform of IMF Instruments - Review of DSF and Debt Limits in IMF Programs/Impact on Paris Club: Discussion of how the Club should consider the revamped IMF program instruments was held over from the September meeting. The only new instrument that seemed in question was the Flexible Credit Line (FCL), which is an upper credit tranche program (the Club criterion for treatment), but with only ex ante conditionality. The Secretariat noted that few countries availing themselves of the FCL were likely to come to the Club, since in most cases the Club accounted for small shares of their debts, and because its comparability requirements would create too many issues regarding the remainder.

¶41. (SBU) There was also further discussion of the new provisions for the treatment of state-owned enterprises (SOEs) in debt sustainability analyses (DSAs), and particularly on whether the Club should presumptively exclude the debts of any SOEs excluded from a DSA. There was general agreement that the decision should remain with the Club.

Treatment of Public Sector
and Nationalized Entities

¶42. (SBU) In a related discussion, the Club considered how it should treat the debts of SOEs and newly-nationalized entities. The discussion came about in response to recent cases involving Grenada, Djibouti, and Seychelles, when debts of certain SOEs were excluded from treatment; and Kazakhstan, where there was disagreement as to whether debt of nationalized entities should be considered sovereign.

¶43. (SBU) The Secretariat had prepared a paper, which noted different definitions of public sector that had historically been used by the Club, and which suggested some criteria the Club could consider going forward - the treatment assumed by the IMF in programs and DSAs, and the individual criteria used by the IMF to make its determinations, such as managerial independence and relationship with the government.

¶44. (SBU) On nationalized debtor entities, the paper stressed that nationalization did not imply government assumption of obligations, but that there might be a practical role for the Club in pressing for fair treatment, as it had been doing in the case of Kazakhstan. The Secretariat made clear that it considered this only in the context of nationalizations carried out when the entities were defaulting and presented systemic risk, and not for nationalizations of choice.

¶45. (SBU) There was little discussion, though Germany suggested the need for more economic criteria, not just legal and institutional ones. The U.S. supported the Secretariat's approach and emphasized the importance of the IMF's sharing its plans for DSA exclusion as far in advance as possible.

Debt Service Reduction (DSR) Methodology

¶46. (SBU) The discussion of DSR methodology, held over from September, was very brief. The Secretariat had prepared a brief paper on how it calculates the treatment to be provided by creditors that selected the debt service reduction option in a previous treatment for the same debtor. This is based on estimating the stock reduction, at the time of the second treatment that simulates equivalent treatment at the time of the first, using average interest rates for the intervening period. There was no discussion.

Outreach - Request from Israel

¶47. (SBU) Under the Club's agreed outreach policy the Secretariat had reached out to three occasional observer creditors - Brazil, Korea, and Israel - to invite them to cooperate more closely with the Club. Only Israel had replied, indicating interest not just in closer involvement, but in full membership. Following the outreach policy, the Secretariat proposed that Israel be invited to attend full sessions of the Club, including methodology discussions (currently, non-members attend only the discussions of countries of which they are creditors). Israel would be asked to provide comprehensive data to the Club, and to honor Club principles such as solidarity. The path from that to full membership - including listing on the website - remained unclear, and could be considered after the Club had had more opportunity to work with Israel.
Creditors agreed to the proposal, though some asked about how it would be presented to the outside world. Until Israel became a full member, the only public notice would be Israel's listing among observers in negotiation press releases.

Working Group on Guarantees

¶48. (SBU) The working group on loan guarantees that have not been called discussed how to create more uniformity of treatment. It was generally agreed that it would be useful to include such guarantees in future data calls, as had been done in the case of Sri Lanka. The data call template would address whether a specific guarantee had been indemnified, and if not whether the creditor government could reschedule the underlying loan. USdel stated that the USG would participate to the extent it could, but passed on warnings that U.S. ECAs do not always have full payment schedules for guaranteed loans.

¶49. (SBU) In terms of action, it was generally agreed that any special cases identified in the data call could be discussed by creditors before a negotiation, to attempt to resolve questions of treatment. There was no agreement on whether such guarantees should always be treated, however. Some creditors argued that Agreed Minutes could be drafted with an "option," allowing the debts to be treated in the event of default as had been done in Pakistan's 2001 treatment. The issue will need to be discussed further. The Secretariat subsequently issued a draft summary of the discussion, which Washington agencies are still reviewing.

¶50. (U) For additional information on any of the countries or issues mentioned above, please contact EEB/IFD/OMA David Freudenwald at freudenwalddj@state.gov or Nicholle Manz at manznm@state.gov.

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